

# **REPORT TO THE CITY COUNCIL BY THE CITY INTERNAL AUDITOR**

## **LIMITED REVIEW SHREVEPORT PUBLIC ASSEMBLY AND RECREATION (SPAR) GOLF ENTERPRISE FUND**

**INTERNAL AUDIT REPORT (IAR) 040103-11**

**December 31, 2003**



December 31, 2003

Councilman Thomas Carmody  
Chairman, Shreveport City Council

Dear Councilman Carmody:

Subject: IAR 040103-11 - Limited Review of Shreveport Public Assembly and Recreation (SPAR), Golf Enterprise Fund

Attached please find the report mentioned above. Management comments are included in the report.

Sincerely,

Leanis L. Graham, CPA, CIA  
City Internal Auditor

jm

**EXECUTIVE SUMMARY  
LIMITED REVIEW  
SHREVEPORT PUBLIC ASSEMBLY AND RECREATION (SPAR)  
GOLF ENTERPRISE FUND  
INTERNAL AUDIT REPORT (IAR) 040103-11**

The purpose of the executive summary is to convey in capsule form the significant issues of the audit report. The executive summary is a vehicle for reviewing the report and should only be used in conjunction with the entire audit report.

**INTRODUCTION**

The Golf Division of SPAR operates and maintains the City's two 18-hole golf courses (Huntington and Querbes Park) and the nine-hole Lakeside Golf Course. As an enterprise fund, the Golf Fund operations should be financed and operated in a manner similar to a private business enterprise; i.e., costs of providing goods or services to the general public should be financed through user charges. All revenues generated at these facilities are used for golf course operations and maintenance.

**OVERVIEW OF SIGNIFICANT ISSUES**

The Internal Audit Office commends SPAR management and employees for their time, insight, cooperation, and assistance during our fieldwork. Based on the results of our audit, we have identified the following significant issues.

Review of pertinent documents and discussions with operating personnel indicated that, generally, the Division was striving to operate effectively and efficiently. However, declining revenues at Huntington and Querbes Golf Courses, a history of unprofitability at Lakeside Golf Course, and outdated equipment and deteriorating fairways have all contributed to operating losses for the Golf Fund over the past several years. Lakeside's operating loss for 2003 was \$160,000. This amount was subsidized by the general fund. During 2003, management began addressing budgetary shortfalls plaguing the golf operation by seeking ways to increase revenues. Additionally, we recommend that management improve operational effectiveness by addressing the following weaknesses noted during our review:

- Improving controls over food sales.
- Documenting and following up on goals and objectives.
- Reviewing player activity documents for accuracy.
- Inquiring into more effective and efficient cash and inventory data capture methods.

## INDEX

Executive Summary .....	1
Index .....	2
Objective .....	3
Scope and Methodology .....	3
Background .....	3
Conclusions/Findings/Recommendations .....	3
Findings	
1. Weaknesses Noted in Restaurant Operations .....	4
2. Inability to Meet Budgetary Goals and Objectives .....	5
3. Weaknesses Noted in Player Activity Documents .....	7
4. Need for Improved Data Capture Methods.....	8

**LIMITED REVIEW  
SHREVEPORT PUBLIC ASSEMBLY AND RECREATION (SPAR)  
GOLF ENTERPRISE FUND  
INTERNAL AUDIT REPORT (IAR) 040103-11**

**OBJECTIVE**

We have completed a limited review of activities associated with the operation of city golf courses. Our objective was to determine the efficiency and effectiveness of current operations and whether organizational goals and objectives were viable and being achieved.

**SCOPE AND METHODOLOGY**

Fieldwork was performed in accordance with applicable generally accepted governmental auditing standards as defined in Operating Instruction A.30 of the Internal Audit Office Operating Instructions Manual. Our review was limited to evaluating the general controls surrounding the specific issues addressed. We reviewed pertinent documents associated with current year activities and held discussions with operating personnel, as necessary, consistent with our objective.

**BACKGROUND**

The Golf Division of SPAR operates and maintains the City's two 18-hole golf courses (Huntington and Querbes Park) and the nine-hole Lakeside Golf Course. As an enterprise fund, the Golf Fund operations should be financed and operated in a manner similar to a private business enterprise; i.e., costs of providing goods or services to the general public should be financed through user charges. All revenues generated at these facilities are used for golf course operations and maintenance.

We wish to express our appreciation to SPAR management personnel for their assistance during the course of our fieldwork.

**CONCLUSIONS/FINDINGS/RECOMMENDATIONS**

Review of pertinent documents and discussions with operating personnel indicated that, generally, the Division was striving to operate effectively and efficiently. However, declining revenues at Huntington and Querbes Golf Courses, a history of unprofitability at Lakeside Golf Course, and outdated equipment and deteriorating fairways have all contributed to operating losses for the Golf Fund over the past several years. Lakeside's operating loss for 2003 was \$160,000. This amount was subsidized by the general fund.

During 2003, management began addressing budgetary shortfalls plaguing the golf operation by seeking ways to increase revenues. Solutions advocated by management which will be implemented during 2004 include the following:

- Eliminating free play for seniors and juniors, which management estimates will increase revenues by \$40,000.
- Enforcing the policies for private golf cart usage, which management estimates will increase revenues by \$10,000.

- Instituting a city golf cart use membership, which management estimates will increase revenues by \$10,000.

Additionally, based on our review, we offer the following additional recommendations to management to improve operational effectiveness.

- Improving controls over food sales.
- Documenting and following up on goals and objectives.
- Reviewing player activity documents for accuracy.
- Inquiring into more effective and efficient cash and inventory data capture methods.

## 1. Weaknesses Noted in Restaurant Operations

**Criteria:** Proper monitoring of inventory practices enables management to determine the efficiency, effectiveness, and profitability of retail operations. This requires routinely overseeing and analyzing related sales.

**Condition:** Procedures in effect to ensure efficiency and effectiveness at two restaurant locations operated by the department were in need of improvement. Review of pertinent documents maintained by the restaurant supervisor indicated the following weaknesses:

- Physical inventories of food inventory on-hand were being conducted monthly by responsible attendants at the two locations and submitted to the supervisor. These reports indicated current balances as of the inventory date. We noted the inventory reports on file showed transfers of merchandise between locations, but the information was not always reflected on reports prepared by the receiving location. We noted no evidence supporting whether the discrepancies were investigated.
- Although the supervisor stated that reported inventory balances were randomly checked at each location routinely to ascertain integrity of data reported, no record was maintained to support the results of such verifications.
- The supervisor did not keep abreast of current profit or loss results at the operating locations. Instead, this information was being monitored by SPAR management personnel.

### Effect:

- Potential for pilferage of food inventory.
- Supervisor's loss of visibility over current operational trends.
- Possible unnecessary expenditure of public monies.

**Cause:** Inadequate internal controls and written guidelines.

**Recommendation:** The SPAR director should develop and adopt appropriate written guidelines to ensure the effectiveness and efficiency of inventory control practices related to restaurant operations. Provisions made should include the following:

- Physical inventories of food items to be conducted at frequent intervals by individuals independent of related daily operations. Discrepancies noted should be adequately investigated and documented.
- Transfers between operating locations to be properly recorded on inventory reports and reconciliations made of such actions.

- Food usage to be analyzed periodically to ensure reasonableness of purchases and associated sales. These actions should be adequately documented.
- The responsible supervisor should receive and review reports regarding the profitability of current operations. This information can be extremely helpful in taking remedial actions, when deemed necessary.

**Management Plan of Action:** Physical inventory of food items will be better managed and controlled with an accurate expenditure of food cost coming in and what is going out with the new point of sale system. Interdepartmental transfers will be done along with a log sheet; which will have Names, Dates, Time and Location. Food usage will also be better monitored by the new point of sale system and a weekly log for reordering of food products. The point of sale system will give the supervisor better reports to use regarding profitability, food usage, and waste; not only for the golf restaurants but for SPAR's Marina Restaurant as well.

**Timetable:** 3 to 6 months

## **2. Inability to Meet Budgetary Goals and Objectives**

**Criteria:** Annually, each Division Manager establishes departmental goals and objectives sought for the coming year. These are established as targets toward improving and maintaining the efficiency and effectiveness of current operations.

**Condition:** The department was unable to achieve two major goals and objectives sought:

- Increasing revenue via more tournaments and green fee players – Due to stagnant golf operations throughout the industry, the department was unable to realize the desired results.
- Increasing revenue via restaurant catering services – Management had sought to note an increase in this area concurrent with the goal noted above. However, the related results did not materialize.

**Effect:**

- Decreased operational profitability.
- Readjustment of budgetary targets.

**Cause:** Management stated that an overall lack of public interest resulting from a declining economy is responsible for the above shortfalls.

**Recommendation:** The SPAR Director should ensure that appropriate action is taken to adequately document the results noted above. In addition, we suggest that management seek possible approaches to resolving declining revenue woes by inquiring as to how other cities are coping with similar situations.

**Management Plan of Action:** Management concurs with this finding. We have seen a significant decrease in revenue at all of our Golf Facilities over the past several years. The decrease in revenue can be attributed to a number of different factors. Increased competition, a slow economy, and the need to upgrade our facilities are the primary factors affecting revenue at our facilities. We have changed our fee structure in an attempt to improve revenue by charging a minimal fee from the two groups that have been playing free which are the 75 and over and Caddo Parish School Golf Teams. Other changes we have made to improve revenue include offering a membership for the use of a City golf cart and tightening of the enforcement of the

abuse of private cart owners allowing others to use their carts. Our desire is to eliminate as many of the private carts as possible by offering a competitive City Cart Membership plan. All of these issues affect each other. A lack of players affects the number of tournaments you can have as well as the amount of products you sell in the restaurants and pro shops.

I have communicated very closely with other Cities in our State to compare the problems we are experiencing. It seems that we are doing as well or better than most of the other facilities in the state. Jack Terry (the golf pro for Baton Rouge Parks and Recreation) shared information with me that he received from the National Parks and Recreation Public Golf Course Management meeting showing golf participation in the South East being off between 20% to 40%. Other information I received from Buster Toms with Club Car (our golf cart supplier) shows national plays is down. The survey showed there is not a decrease in the number of players but there is a decrease in the number of rounds these players are playing. The bottom line is that we have got to find ways to increase the number of golfers using our facilities. It is my opinion that improving the quality of our courses is our only hope. All the courses we compete with are either new or have recently been upgraded. We are going to have to invest in our courses if we are to stay competitive.

There are other ways to improve the profitability of our courses but most of these are very difficult to approach. Baton Rouge is eliminating the use of private golf carts and requiring riders to use the City Carts. The elimination of entitlement golf (special rates for seniors, youth, employees, etc.) for special interest groups and the marketing of the slow times of the day or week is another way to improve revenue. All the Golf Course Management Seminars emphasize the need to eliminate cheap memberships. As you can see, each of these issues would be very unpopular.

**In my opinion, investing in all three of our courses to improve the quality of play is the only real long term solution we have.**

**Timetable:** January 1, 2004

### **3. Weaknesses Noted in Player Activity Documents**

**Criteria:** Golfers utilizing the Pro Shops, whether members or casual players, are required to register on sign-in logs each time they play. The latter serve as audit trails of each day's playing activities. Registered members need not pay each time they play as they are prepaid for designated periods of time.

**Condition:** Our review of selected documents showed that player sign-in sheets contained several minor discrepancies. We noted the following instances:

- Players were signed in showing erroneous membership numbers.
- Players who signed in as registered members (prepaid) were not listed on the corresponding membership roster.

**Effect:**

- Decreased revenue.
- Deviation from established policies and procedures.

**Cause:** Lack of oversight by the Pro Shop attendant.



**Recommendation:** The SPAR Director should reemphasize to golf course operating personnel the importance of maintaining the integrity of documents supporting daily activities.

**Management Plan of Action:** We concur with the audit finding. We are in the process of purchasing a new Point of Sale (POS) cash register system that will produce the types of records we need to ensure the integrity of the information we receive. The new system will allow us to issue a bar coded membership card that will require the pro shop attendant to scan the card into the system to produce a receipt the golfer will use to access the course. Daily, weekly, monthly, and annual reports will be produced by the POS system instead of a manual sign in sheet. This will greatly improve the accuracy of the reports we receive.

**Timetable:** 3 to 6 months

#### **4. Need for Improved Data Capture Methods**

**Criteria:** Good management practice requires accurate, dependable, and timely recording of sales and food inventory data. Modern technology offers affordable automated software that enables management to keep abreast of such data efficiently and effectively.

**Condition:** In our opinion, methods in effect to capture cash sales activity, both at the Pro Shops and restaurant operations, were not providing management efficient or effective information. While we noted that cash receipts were being deposited promptly by operating personnel, related supporting data often took days to be submitted for accuracy and review. Daily depletion of food inventory items is currently being reported weeks after their use.

**Auditor's Note:** SPAR management personnel have inquired into the feasibility of adopting an automated system geared toward recording both sales operations as well as golf player activities at the point of sale (POS).

**Effect:**

- Exposure to transactions being omitted.
- Inefficient and ineffective operations.

**Cause:** The stated obstacles have not been previously addressed because of budgetary constraints.

**Recommendation:** The SPAR Director should aggressively seek the expert assistance of Data Processing Division personnel in pursuing available options regarding a more viable system for processing and documenting daily operations and revenue activities. This system could be used to record member-player visits to the golf courses, enabling management to alleviate the problems cited in the finding presented above. On the other hand, more modern cash register devices could be procured to record cash operations at the Pro Shops as well as the restaurants. Acquisition of such a system could simplify such activities as inventory control in the restaurants and in maintaining more positive control over golf operational revenues received.

**Management Plan of Action:** We concur with the audit finding. The Data Processing Division of our Finance Department has worked very closely with us to find a Point of Sale (POS) cash register system that will meet the needs of all of our revenue receiving locations. This system will be able to automatically transfer the revenue information directly to the City's accounting

system eliminating several steps of manual checks we presently are required to go through. This will improve accuracy as well as efficiency. This POS system will also produce the types of reports necessary for management to accurately evaluate the profitability of golf courses.

**Timetable:** 3 to 6 months

Prepared by:

Jose B. Lugo, CFE, CGFM  
Staff Auditor

Approved by:

Leanis L. Graham, CPA, CIA  
City Internal Auditor

BL:jm

c: Mayor  
CAO  
City Attorney  
Clerk of Council  
External Auditor  
Director of Finance  
SPAR Director